

**REPORT OF THE AUDIT OF THE
BOONE COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

March 29, 2002



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
BOONE COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

March 29, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Boone County Sheriff as of March 29, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$68,153,239 for the districts for 2001 taxes, retaining commissions of \$1,947,564 to operate the Sheriff's office. The Sheriff distributed taxes of \$65,803,306 to the districts for 2001 Taxes. Taxes of \$46,213 are due to the districts from the Sheriff and refunds of \$51,097 are due to the Sheriff from the taxing districts.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Gary W. Moore, Boone County Judge/Executive

Honorable Michael Helmig, Boone County Sheriff

Members of the Boone County Fiscal Court

Independent Auditor's Report

We have audited the Boone County Sheriff's Settlement - 2001 Taxes as of March 29, 2002. This tax settlement is the responsibility of the Boone County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Boone County Sheriff's taxes charged, credited, and paid as of March 29, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Gary W. Moore, Boone County Judge/Executive
Honorable Michael Helmig, Boone County Sheriff
Members of the Boone County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 2, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 2, 2003

BOONE COUNTY
MICHAEL HELMIG, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

March 29, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 5,446,312	\$ 9,254,724	\$ 25,648,456	\$ 7,800,661
Tangible Personal Property	1,441,894	2,765,583	4,099,586	3,175,653
Intangible Personal Property				1,220,263
Tangible Inventory in Transit		1,030,081		
Taxes Increased Through				
Erroneous Assessments	8,305	22,205	41,145	27,651
Franchise Corporation	1,001,475	1,417,405	3,158,553	
Additional Billings	584,521	114,620	1,688,317	146,559
Limestone, Sand, and Mineral Reserves	642	1,148	2,914	919
In Lieu of Taxes	50,641	87,651	216,898	
Penalties	20,108	34,577	91,167	38,789
Adjusted to Sheriff's Receipt	<u>(444)</u>	<u>(450)</u>	<u>9</u>	<u>(7)</u>
Gross Chargeable to Sheriff	<u>\$ 8,553,454</u>	<u>\$ 14,727,544</u>	<u>\$ 34,947,045</u>	<u>\$ 12,410,488</u>
<u>Credits</u>				
Exonerations	\$ 42,990	\$ 69,823	\$ 180,524	\$ 88,112
Discounts	128,441	225,963	536,474	210,938
Delinquents:				
Real Estate	63,623	114,383	303,963	91,082
Tangible Personal Property	7,254	12,276	20,533	26,302
Intangible Personal Property				1,981
Exonerated Additional Bills	42,436	68,893	119,111	120,716
Delinquent Additional Bills	<u>2,520</u>	<u></u>	<u>6,954</u>	<u></u>
Total Credits	<u>\$ 287,264</u>	<u>\$ 491,338</u>	<u>\$ 1,167,559</u>	<u>\$ 539,131</u>
Taxes Collected	\$ 8,266,190	\$ 14,236,206	\$ 33,779,486	\$ 11,871,357
Less: Commissions a)	<u>351,601</u>	<u>415,553</u>	<u>675,590</u>	<u>504,820</u>
Taxes Due	\$ 7,914,589	\$ 13,820,653	\$ 33,103,896	\$ 11,366,537
Taxes Paid	7,852,622	13,743,231	32,898,711	11,308,742
Refunds (Current and Prior Year) Note 8	<u>62,412</u>	<u>79,018</u>	<u>206,519</u>	<u>59,305</u>
Due Districts or (Refunds Due Sheriff)		b)	c)	d)
as of Completion of Fieldwork	<u>\$ (445)</u>	<u>\$ (1,596)</u>	<u>\$ (1,334)</u>	<u>\$ (1,510)</u>

a), b), c), and d) See Page 4

The accompanying notes are an integral part of the financial statement.

BOONE COUNTY
 MICHAEL HELMIG, SHERIFF
 SHERIFF'S SETTLEMENT- 2001 TAXES
 March 29, 2002
 (Continued)

a) Commissions:

10% on	\$	10,000
4.25% on	\$	28,533,621
2% on	\$	33,779,486
1% on	\$	5,830,131

b) Special Taxing Districts:

Library District	\$	(105)
Health District		(77)
Extension District		(54)
Union Ambulance		(109)
Walton Fire District #1		81
Hebron Fire District #3		172
Union Fire District #4		(117)
Burlington Fire District #5		99
Petersburg Fire District #7		(81)
Verona Fire District #8		(273)
Florence Fire District #9		<u>(1,132)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u>(1,596)</u>

c) School Districts

Common School	\$	(47,195)
Graded School		<u>45,861</u>
Due Districts or (Refund Due Sheriff)	\$	<u>(1,334)</u>

d) The State Refunded the Sheriff \$1,259 in September 2002.

BOONE COUNTY
NOTES TO FINANCIAL STATEMENT

March 29, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of March 29, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

BOONE COUNTY
NOTES TO FINANCIAL STATEMENT
March 29, 2002
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2001 through March 29, 2002.

Note 4. Interest Income

The Boone County Sheriff earned \$33,138 as interest income on 2001 taxes. The Sheriff distributed the appropriate amount to the school districts as required by statute, and the remainder will be used to operate the Sheriff's office

Note 5. Sheriff's 10% Add-On Fee

The Boone County Sheriff collected \$128,958 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Boone County Sheriff collected \$4,885 of advertising costs and \$4,885 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). Since the Sheriff pays for the advertising out of the fee account, he transferred the advertising cost to the fee account and the advertising fees will be used to operate the Sheriff's Office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2001 taxes, the Sheriff had \$6,742 in unrefundable duplicate payments, unexplained receipts, and checks to be written off. Therefore, the Sheriff should send a written report to the Treasury Department.

Note 8. Refunds

A refund to General Electric Company was not approved by the Revenue Cabinet for payment to General Electric until August 2001 even though they had authorized a portion of the refund to be applied to an additional tax bill owed by General Electric during the 2000 tax year. A total refund of \$70,714 was paid to General Electric in November 2001. This amount represents the balance of the refund due General Electric Company.

COMMENT AND RECOMMENDATION

BOONE COUNTY
MICHAEL HELMIG, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

March 29, 2002

INTERNAL CONTROL-REPORTABLE CONDITION/MATERIAL WEAKNESS

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition and a material weakness under standards established by the American Institute of Certified Public Accountants. During the audit it was noted that the tax bookkeeper collects taxes as well as reconciles and reports tax collections. The tax bookkeeper also prepares checks for tax distribution and refunds. We recommend that the Sheriff separate these duties in the future.

Sheriff's Response:

No response noted.

PRIOR YEAR:

- Lacks Adequate Segregation Of Duties

This comment is repeated in the current year.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Boone County Sheriff's Settlement - 2001 Taxes as of March 29, 2002, and have issued our report thereon dated June 2, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Boone County Sheriff's Settlement - 2001 Taxes as of March 29, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Boone County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition listed above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 2, 2003

